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SUBJECT: STEEL STRIKE RAISES ISSUES OF POWER AND
PRIVATIZATION

Summary

11. (SBU) A strike at the partially privatized SIDOR steel complex in Puerto Ordaz (Bolívar state) by a pro-government union has gone on for two weeks. Company sources express fear that the strike, allegedly over failure to share profits with workers, may be a prelude to an effort to undo the privatization, and suspect GOV connivance. If further prolonged, a shutdown at SIDOR could affect a wide range of Venezuelan businesses at a time when the economy remains very fragile. Some employees, however, have returned to work, and the GOV now may be looking for a face-saving way out for the union. If a negotiated solution is not found, the SIDOR strike could force the GOV to choose between a union that supports it and multinationals that it has largely left alone until now. End summary.

The Players

12. (SBU) Since April 23, SIDOR (Orinoco Steel Works), Venezuela's principal steel producer, has been hit by a strike by its main union, SUTISS. SIDOR, which employs 5,700 workers at its Puerto Ordaz (Bolívar state) mill and wharf complex, producing a wide variety of steel products, was originally a wholly-owned component of the giant state enterprise "Corporación Venezolana de Guayana" (CVG). It was largely privatized in 1998, with the sale of 70 pct to a consortium led by Argentine interests, but also including Brazilian, Mexican, and private Venezuelan firms. The GOV, through CVG, retained a 10 pct interest. When the firm was partially privatized, the GOV was committed to selling the remaining 20 pct to employees on preferential terms under a "Labor Participation Program." However, it has not done so, and it is generally believed that the Chavez government prefers to keep as much as possible of the firm in state hands (see below). SIDOR faced hard times after its partial privatization, in face of over-production in the world steel market and an over-valued bolívar. Ultimately, it underwent a reorganization in which in exchange for a cash infusion, the GOV (through CVG) took back an additional 10 pct, giving it a 40 share, including the undistributed Labor Participation Program stock, and leaving the consortium with 60 pct.

13. (SBU) SUTISS, the main SIDOR union (representing 4000 workers), is run by elements in sympathy with the Chavez government, and is linked to the pro-Chavez UNT labor confederation, which has supported the strike. The pro-Chavez union gained strength following privatization, when the workforce was chopped back from 13,000 in an abrupt manner, and has organized a number of short-term walk-outs since then. Its leader, Ramon Machuca, campaigned for the union presidency as an opponent of privatization. During the December 2002-February 2003, SUTISS led a large march on state oil enterprise PDVSA's Anaco natural gas processing plant in support of keeping it open. Had the Anaco plant closed, all of the Guayana basic industries complex (SIDOR and CVG's Venalum and Bauxilum aluminum mills) would have had to just down. In fact, they stayed open through the strike.

The Issues - Money and Politics

14. (SBU) Superficially at least, this is a strike about money. With SIDOR enjoying a more favorable economic climate, as a result of increased world demand for steel and a cheaper bolívar, SUTISS is demanding that the workers receive 90 days pay worth of "profit-sharing." SIDOR insists that the 15 days which it paid them as a Christmas bonus is all that the law requires. The union also alleges that SIDOR, which has made significant payments to CVG recently, should be giving some of this money to the workers. SIDOR's response is that any money it is transferring to CVG is

repayment of debt incurred during the restructuring, and not any kind of dividend. It asserts that the workers should look to CVG to hand over to the workers their Labor

Participation Program shares, if they expect to benefit from the firm's improving position.

15. (SBU) However, company sources tell us that they see a larger agenda here. They suggest that union leader Machuca wants to create chaos with an ultimate goal of getting the GOV to intervene and roll back SIDOR's privatization. Connivance with the GOV is suspected here. They note that upon taking office Chavez froze planned partial privatizations of other CVG firms. They also suggest that the GOV dragged its feet on the distribution of the Labor Participation Program shares to individual workers to keep its own existing interest as high as possible to prepare for such a move. There is also speculation that Machuca is interested in using a labor battle at SIDOR to either promote the candidacy of former CVG President Francisco Rangel, the pro-Chavez Fifth Republic Movement candidate for governor of Bolivar state (or in another version, to promote himself as an alternative to Rangel).

----- Economic Consequences -----

16. (SBU) As the strike drags on concern is rising about its impact. SIDOR has announced it will stop paying the strikers, a move which the union denounces as unfair. The lost income will have an immediate effect on the economy in Bolivar. But beyond that, the businesses which rely on SIDOR's steel are getting nervous. (SIDOR has kept up intermittent deliveries from inventories thus far, but cannot do so indefinitely. It has also faced union demonstrations and roadblocks which have turned violent, adding to its difficulties.) Leaders of business associations ranging from the strongly anti-Chavez Venezuelan Industrial Confederation (CONINDUSTRIA) to the more pro-Chavez Confederation of Small and Medium (FEDEINDUSTRIA) have weighed in, noting that SIDOR supplies raw material for a wide range of businesses, and that some are on the verge of shutting down. An advertisement placed by the steel industry's trade association noted that SIDOR's steel is used in everything from auto parts and food packaging to petroleum tubes. SIDOR's steel is also used by CVG for production processes at its aluminum smelting plants, and it too has called for a rapid end to the conflict.

----- Finding a Way Out -----

17. (SBU) The GOV has been largely silent on the SIDOR strike. SIDOR management has demanded that the strike be declared illegal, which the GOV has thus far not done. Only on May 3 did the Labor Ministry become engaged, hosting a meeting between labor and management, which has not apparently moved the parties any closer. State-owned CVG has published an advertisement saying that it is moving forward on the distribution of the Labor Participation Program shares to SIDOR workers (although it is not clear at all that this is what the union is seeking). Thus far Chavez has made no comments on the strike. News reports on May 10 and 11 stated that several hundred workers had voluntarily returned to their jobs, and implied that the return of the Labor Participation Program shares, plus some additional bonus money could be the basis for a settlement.

----- Comment -----

18. (SBU) We cannot say whether the GOV has actively been involved with the union in setting up this crisis or whether it has stumbled into it as a result of the union's acting on its own. But it now faces difficult choices. Letting the strike continue hurts an economy which the GOV has sought to pump up as it deals with the challenge presented by the political opposition's referendum drive. Supporting SIDOR management and declaring the strike illegal would be tantamount to disavowing the new pro-Chavez labor movement it has spent so much effort in promoting. Intervening to undo SIDOR's privatization, while attractive ideologically, would set the GOV up with a direct confrontation with foreign

multinationals, including ones from two countries it is trying hard to cultivate, Brazil and Argentina. If the strike is indeed beginning to crumble (good jobs are hard to come by and many workers may not want to follow the union over a cliff), then the distribution of the Labor Participaton Program shares, plus some more money (either from SIDOR itself or from the GOV) may allow the union to

declare victory. That would probably be the best short-term outcome from the GOV's point of view, unless it really does want to use this as a chance to "deepen the revolution," albeit at a high political and economic cost.

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